

Message Text

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ACTION AID-59

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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC PRIORITY 1340
INFO AMEMBASSY NEW DELHI PRIORITY

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DEPT PASS USDA FOR PL 480 TITLE I COORDINATOR NORTON;

NEW DELHI FOR AGATT

E.O. 11652: N/A
TAGS: EAGR,EAID,CE
SUBJECT: REQUEST FOR PL 480 TITLE I AND TITLE III FY 1979
AGREEMENTS

REF: (A) COLOMBO 4145, (B) COLOMBO 3772, (C) STATE 165684,
(D) COLOMBO 2440

1. SUMMARY. THE GOVERNMENT OF SRI LANKA (GSL) HAS REQUESTED 200,000 METRIC TONS OF WHEAT FLOUR UNDER PL 480 TITLE I DURING FY 1979. THE EMBASSY REQUESTS AUTHORITY TO NEGOTIATE AN FY 79 TITLE I AGREEMENT FOR 100,000 MT. EMBASSY RECOMMENDATION ON THE SECOND 100,000 MT WILL BE FORTHCOMING AFTER THE NOVEMBER 15 PRESENTATION OF THE GSL'S 1979 BUDGET. END SUMMARY.

2. THE EMBASSY HAS RECEIVED A LETTER FROM S. VELAYUTHAM, DIRECTOR OF EXTERNAL RESOURCES (ERD), REQUESTING 200,000 METRIC TONS OF WHEAT FLOUR UNDER PL 480 TITLE I DURING FY 79. THE LETTER ALSO REQUESTS A FOOD FOR DEVELOPMENT
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PROGRAM UNDER PL 480 TITLE III WHICH WILL BE THE SUBJECT OF A SEPARATE TELEGRAM.

3. WHILE TAKING NOTE OF THE EMBASSY'S LETTER OF JULY 6, WHICH INFORMED THE ERD THAT WASHINGTON AGENCIES WERE PROPOSING ONLY 75,000 MT OF FLOUR OF FY 79 (REFTEL C), VELAYUTHAM REQUESTS THE EMBASSY TO "PREVAIL UPON THE

WASHINGTON AUTHORITIES TO GIVE EARNEST CONSIDERATION TO OUR REQUEST FOR THE SAME LEVEL OF FOOD ASSISTANCE AS IN THE US FISCAL YEARS 1977 AND 1978." IN SUPPORT OF THIS REQUEST, VELAYUTHAM PROVIDED THE FOLLOWING WHEAT FLOUR SUPPLY AND DISTRIBUTION TABLE FOR CALENDAR YEARS 1978 AND 1979 AND BALANCE OF PAYMENTS' PROJECTIONS FOR CY 1978 (ACTUAL FIGURES FOR CY 1977 ADDED FOR COMPARISON).

SUPPLY AND DISTRIBUTION TABLE FOR WHEAT FLOUR
(1,000 METRIC TONS)

	1978	1979
A. BEGINNING STOCKS	27	100
B. PRODUCTION (IMPORTED WHEAT)	78	75
C. IMPORTS	602	423
(1) COMMERCIAL	344	148
(2) CONCESSIONAL	258	275
D. TOTAL SUPPLY (A,B,C)	707	598
E. CONSUMPTION (I-F)	592	504
F. SEED, FEED, WASTE	15	10
G. EXPORTS	NONE	NONE
H. ENDING STOCKS	100	84
I. TOTAL DISTRIBUTION (D-H)	607	514

4. CONCESSIONAL IMPORTS INCLUDE 200,000 MT UNDER PL 480 IN BOTH YEARS. THE CONSUMPTION FIGURE FOR 1979 ASSUMES AN LIMITED OFFICIAL USE

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AVERAGE MONTHLY DISTRIBUTION OF 42,000 MT OF FLOUR. THIS IS ABOUT THE LEVEL EXPECTED BY THE FOOD COMMISSIONER AT THE CURRENT FLOUR PRICE OF RS. 1.12 (7.2 US CENTS) PER POUND (REFTEL B). IF THE PRICE OF FLOUR IS INCREASED FURTHER BEFORE THE END OF THE YEAR, TOTAL CONSUMPTION IN 1978 IS LIKELY TO BE LESS THAN SHOWN ABOVE

5. SRI LANKA BALANCE OF PAYMENTS (MILLIONS OF US DOLLARS)

	ACTUAL 1977	ESTIMATED 1978
MERCHANDISE	54	-300
EXPORTS (FOB)	726	785
IMPORTS (CIF)	-672	-1,085
SERVICES	24	27
RECEIPTS	90	122
PAYMENTS	-66	-95
TOTAL GOODS AND SERVICES	78	-273
NOT TRANSFERS	60	74
TOTAL CURRENT ACCOUNT	138	-199
NET NONMONETARY CAPITAL	37	155
PRIVATE SECTOR	-3	-1

PUBLIC SECTOR (LONG-TERM)	62	195
PUBLIC SECTOR (SHORT-TERM)	-22	-39
ERRORS AND OMISSIONS	4	--
OVERALL BALANCE	179	-44

THE MOST IMPORTANT CHANGE IN SRI LANKA'S BALANCE OF PAYMENTS THIS YEAR, AS COMPARED TO 1977, IS THE PROJECTED 61.5 PERCENT INCREASE IN THE DOLLAR VALUE OF MERCHANDISE IMPORTS. THIS REFLECTS THE IMPORT LIBERALIZATION PROGRAM IMPLEMENTED AT THE END OF LAST YEAR. ALTHOUGH NET NON-MONETARY CAPITAL (LARGELY AID FLOWS) IS ALSO EXPECTED TO REGISTER A SIZEABLE INCREASE THIS YEAR, IT WILL NOT BE ENOUGH TO OFFSET THE LARGE TRADE DEFICIT. AS A CONSEQUENCE, THE OVERALL BALANCE, WHICH RECORDED A SURPLUS OF \$179 MILLION IN 1977, LIMITED OFFICIAL USE

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IS EXPECTED TO BE \$44 MILLION IN DEFICIT IN 1978. BALANCE OF PAYMENTS PROJECTIONS FOR 1979 WILL BE PREPARED IN CONJUNCTION WITH THE IMF TEAM DUE IN OCTOBER.

6. EMBASSY RECOMMENDATION. THE EMBASSY REQUESTS THAT IT BE SENT INSTRUCTIONS TO NEGOTIATE AN FY 79 TITLE I AGREEMENT FOR 100,000 MT OF WHEAT FLOUR WITH AUTHORITY TO INCLUDE IN THE AGREED MINUTES AMBIGUOUS LANGUAGE REGARDING THE POSSIBILITY OF A SECOND 100,000 MT SIMILAR TO THAT USED LAST YEAR (SEE PARA 18, SPILLANE-VELAYUTHAM LETTER OF JANUARY 5, 1978, ENCLOSED WITH COLOMBO A-09). THE EMBASSY WILL MAKE ITS RECOMMENDATION ON THE SECOND 100,000 MT AFTER THE 1979 BUDGET PRESENTATIONS NOW SCHEDULED FOR NOVEMBER. BY THAT TIME IT SHOULD BE CLEAR WHETHER OR NOT THE GSL WILL QUALIFY FOR EXTENDED FUND FACILITY ASSISTANCE FROM THE IMF.

7. THE ABOVE SUPERSEDES REFTEL D RECOMMENDATION THAT THE TITLE I BASELINE BE REDUCED FROM 100,000 MT TO 75,000 MT. THIS REDUCTION WAS RECOMMENDED SHORTLY AFTER THE MAY 5 INCREASE IN THE PRICE OF FLOUR FROM RS. 0.60 TO RS. 0.72 PER POUND WHICH FELL CONSIDERABLY SHORT OF THE ONE RUPEE PER POUND EXPECTED BY THE IMF. AT THAT TIME IT APPEARED THE GSL WAS FALTERING IN ITS COMMITMENT TO REDUCE FLOUR AND OTHER FOOD SUBSIDIES. THIS WAS THE PERIOD FOLLOWING THE END-OF-MARCH FIRING OF FINANCE SECRETARY LAL JAYAWARDENE DURING WHICH POLICY IN NUMBER OF AREAS DRIFTED FOR SEVERAL MONTHS UNTIL THE NEW SECRETARY, D.WALTER TILAKARATNE, GOT A FIRM GRIP ON THE JOB. WHILE THE AVAILABILITY OF FOOD AID HAS LITTLE OR NO INFLUENCE ON THE GSL'S FLOUR PRICING POLICY (REFTEL A), THE BASELINE REDUCTION WAS NECESSARY TO MAKE CLEAR USG CONCERNS ABOUT THE DISINCENTIVE EFFECTS OF LIMITED OFFICIAL USE

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SUBSIDIZED FLOUR ON DEMESTIC FOOD PRODUCTION. THERE IS NO EVIDENCE, HOWEVER, THAT THE REDUCTION HAD ANY EFFECT ON THE GSL'S PRICE POLICY.

8. IT IS NOW QUITE APPARENT THAT THE GSL IS DETERMINED TO CONTINUE REDUCING THE FLOUR SUBSIDY AS QUICKLY AS PRESIDENT JAYEWARDENE'S PERCEPTION OF THE POLITICAL CLIMATE WILL PERMIT. SINCE MAY, THE PRICE OF FLOUR HAS BEEN RAISED TWICE (JUNE 18 AND AUGUST 20) TO THE PRESENT LEVEL OF RS. 1.12 (7.2 US CENTS) PER POUND. (THE FULL COST OF PL 480 FLOUR INCLUDING INTERNAL DISTRIBUTION EXPENSES, NOW AVERAGE ABOUT RS. 1.80 (11.5 US CENTS); COMMERCIAL FLOUR FROM EUROPE IS SOMEWHAT CHEAPER.

9. THE LOCAL PRICE OF FLOUR MAY BE RAISED FURTHER BEFORE THE NOVEMBER 15 BUDGET PRESENTATION. THE ACTIONS ALREADY TAKEN BY THE GSL, HOWEVER, WARRANT A RETURN TO THE 100,000 MT BASELINE FIGURE.

10. A DETAILED ANALYSIS OF SRI LANKA'S CURRENT FOOD GRAIN SITUATION IS IN PREPARATION AND FOLLOWS BY SEPTEL.
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